

WORLD TRADE ORGANIZATION

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WORKING PARTY ON THE ACCESSION OF CHINA

Communication from China

In preparation for the Working Party meeting to be held on 1 August 1997, the Chinese Delegation hereby submits the following materials:¹

- I. Revised annexes to the Draft Protocol on the Accession of China to the WTO (July 1997)
 1. Annex 2a-1 Products subject to State Trading (Import)
 2. Annex 5a Notification pursuant to Article 25 of the Agreement on Subsidies and Countervailing Measures
 3. Annex 5b Subsidies to be Phased Out
 4. Annex 7a Products subject to Import Statutory Inspection
- II. Information on the trade regime of China for the purpose of transparency
 1. Notification pursuant to Article 16 of the Draft Protocol on the Accession of China to the WTO and the Agreement on the Application of Sanitary and Phytosanitary Measures (draft)
 2. Supporting Table relating to Domestic Support Measures in accordance with the format contained in WT/ACC/4 (revised, July 1997)

¹English only.

ANNEX 2a-1

PRODUCTS SUBJECT TO STATE TRADING (IMPORT)

July 1997

NO	PRODUCTS	HSNO' 96	DESCRIPTION OF PRODUCTS	STATE TRADING ENTERPRISES
1	Grain	10011000	Durum wheat	China National Cereals, Oil & Foodstuff Import and Export Co.
2		10019000	Spelt, common wheat and meslin	
3		10059000	Maize (excl. seed)	
4		10061000	Rice in the husk (paddy or rough)	
5		10062000	Husked (brown) rice	
6		10063000	Semi-milled or wholly milled rice	
7		10064000	Broken rice	
8	Vegetable Oil	15071000	Crude soy-bean oil	1. China National Cereals, Oil & Foodstuff Import and Export Co. 2. China National Native Products and Animal By-products Import & Export Co. 3. China Resources Co. 4. China Nam Kwong National Import & Export Co. 5. China Liangfeng Cereals Import & Export Co. 6. China Cereals Oil and Foodstuff Co.(Group)
9		15079000	Soy-bean oil(excl. crude) and fractions	
10		15081000	Crude ground-nut oil	
11		15089000	Ground-nut oil (excl. crude) and fractions	
12		15111000	Crude palm oil	
13		15119000	Palm oil (excl. crude) and liquid fractions	
14		15121100	Crude sunflower-seed and safflower oil	
15		15122100	Crude cotton-seed oil and fractions	
16		15122900	Cotton-seed oil (excl. crude) and fractions	
17		15141000	Crude rape, colza or mustard oil and fraction	
18		15149000	Rape, colza or mustard oil (excl. crude) and fractions	
19		15152100	Crude maize (corn) oil	
20		15155000	Sesame oil and fractions	
21	Sugar	17011100	Raw cane sugar, in solid form	1. China National Cereals, Oil & Foodstuff Import and Export Co. 2. China Export Commodities Bas Construction Co. 3. China Overseas Trade Co. 4. China Sugar & Wine Co. (Group) 5. China Commerce Foreign Trade Co.
22		17011200	Raw beet sugar, in solid form	
23		17019910	Granulated sugar	
24		17019920	Refined white sugar	
25	Tobacco	24011010	Flue-cured tobacco, not stemmed/stripped	China National Tobacco Import & Export Co.
26		24011090	Tobacco, not stemmed/stripped (excl. flue-cured tobacco)	
27		24012010	Flue-cured tobacco, partly or wholly stemmed/stripped	
28		24012090	Tobacco, partly or wholly stemmed/stripped (excl. flue-cured tobacco)	
29		24013000	Tobacco refuse	
30		24021000	Cigars, cheroots and cigarillos, containing tobacco	
31		24022000	Cigarettes containing tobacco	
32		24029000	Cigars, cigarillos, cigarettes, etc., not containing tobacco	
33		24031000	Smoking tobacco, whether or not containing tobacco substitutes in any proportion	
34		24039100	Homogenized or reconstituted tobacco	
35		24039900	Other	

36	Crude Oil	27090000	Petroleum oils and oils obtained from bituminous minerals, crude	1. China National Chemical Import & Export Co. 2. China International United Petroleum & Chemicals Co. 3. China National United Oil Co.
37	Processed Oil	27100011	Gasoline used for automobiles or aircraft	
38		27100012	Jet fuel of gasoline type	
39		27100013	Naphthas	
40		27100021	Kerosene	
41		27100031	Light diesel oils	
42		27100032	Heavy diesel oils	
43		27100040	Other fuel oils	
44	Chemical Fertilizer	31021000	Urea	China National Chemical Import & Export Co.
45		31022100	Ammonium sulfate	
46		31022900	Double salts and mixtures of ammonium sulfate and ammonium nitrate	
47		31023000	Ammonium nitrate	
48		31024000	Mixtures of ammonium nitrate with inorganic non-fertilizing substances	
49		31025000	Sodium nitrate	
50		31026000	Double salts and mixtures of calcium nitrate and ammonium nitrate	
51		31027000	Calcium cyanamide	
52		31028000	Mixtures of urea and ammonium nitrate in aqueous or ammoniacal solution	
53		31029000	Mineral or chemical fertilizers, nitrogenous, nes	
54		31031000	Superphosphates	
55		31032000	Basic slag	
56		31039000	Mineral or chemical fertilizers, phosphatic, nes	
57		31041000	Carnallite, sylvite and other Crude natural potassium salts	
58		31042000	Potassium chloride	
59		31043000	Potassium sulfate	
60		31049000	Mineral or chemical fertilizers, potassic, nes	
61		31051000	Fertilizers... in packages of a gross weight =<10kg	
62		31052000	Mineral or chemical fertilizers with nitrogen, phosphorus and potassium	
63		31053000	Diammonium hydrogenorthophosphate (diammonium phosphate)	
64		31054000	Ammonium dihydrogenorthophosphate (monoammonium phosphate)	
65		31055100	Mineral or chemical fertilizers containing nitrates and phosphates	
66		31055900	Mineral or chemical fertilizers with nitrogen and phosphorus, nes	
67		31056000	Mineral or chemical fertilizers with phosphorus and potassium, nes	
68		31059000	Other fertilizers, nes	
69	Cotton	52010000	Cotton, not carded or combed	1. China National Textiles Import & Export Co. 2. Beijing Jiuda Textiles Group Co. 3. Tianjing Textiles Industry Supply and Marketing Co. 4. Shanghai Textiles Raw Materials Co.
70		52030000	Cotton, carded or combed	

ANNEX 5a

**NOTIFICATION PURSUANT TO ARTICLE XXV OF
THE AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES**

People's Republic of China
July 1997

**I. SUBSIDIES PROVIDED TO CERTAIN STATE-OWNED ENTERPRISES WHICH
ARE RUNNING AT A LOSS**

1. Title of the subsidy program

Subsidies provided to certain State-owned enterprises which are running at a loss.

2. Period covered by the notification

1990-1996.

3. Policy objective and/or purpose of the subsidy

To promote structural adjustment of those State-owned enterprises which are running at a loss, especially those in coal-mining and oil-drilling sectors, while keeping employment by means of promoting rationalization and maintaining stable production and safety.

4. Background and authority for the subsidy

Ministry of Finance.

5. Legislation under which it is granted

Assistance by budget.

6. Form of the subsidy

Grant.

7. To whom and how the subsidy is provided

Subsidy is provided to severe loss-making State-owned enterprises due to either fixed price of the products they produce or the increasing cost of exploitation of the resources.

8. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy

Unit: 100 million RMB

Sector/Year	1990	1991	1992	1993	1994
Metallurgic industry	1.16	1.46	1.35	3.13	4.07
Ferrous-metal industry	0.63	0.86	1.28	1.51	5.80
Machinery industry	3.80	5.07	14.61	3.98	14.09
Coal industry	55.86	66.70	70.14	49.80	47.19
Oil industry	42.53	54.36	52.89	28.08	0.00
Chemical industry	3.83	4.03	3.70	4.11	6.90
Textile industry	1.90	2.39	2.07	3.09	2.65
Light industry	6.65	7.88	6.31	9.30	3.99
Tobacco industry	0.00	0.00	0.00	0.00	12.00
Total of the nine sectors	116.36	142.75	152.35	103.00	96.69
Other sectors	1.65	1.94	1.99	1.53	1.24
Total	118.01	144.69	154.34	104.53	97.93

9. Duration of the subsidy and/or any other time-limits attached to it
1949-2000.

10. Statistical data permitting an assessment of the trade effects of a subsidy
Not available.

II. THE PRIORITY IN OBTAINING LOANS AND FOREIGN CURRENCIES BASED ON EXPORT PERFORMANCE

1. Title of the subsidy program

The priority in obtaining loans and foreign currencies based on export performance.

2. Period covered by the notification

1994-1996.

3. Policy objective and/or purpose of the subsidy

To promote the exportation of automobiles.

4. Background and authority for the subsidy

State Planning Commission.

5. legislation under which it is granted

State Council Circular on Industrial Policy on Automobiles..

6. Form of the subsidy

Priority in obtaining loans and foreign currencies.

7. To whom and how the subsidy is provided

Priority is given to:

1)Automotive production enterprises whose export of whole vehicle products has reached the percentage points in the volume of their sales as indicated in the following chart;

Vehicles Types	Category	Percentages
Passenger Vehicles	M1	3%
	M2	5%
	M3	8%
Freight Vehicles	N1	5%
	N2, N3	4%
Motorcycles	L	10%

and

2)Automobile and motorcycle components manufacturing enterprises whose exports account for 10 per cent of their total annual sales.

8. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy

Zero, because no enterprises have reached the level for enjoying the priority up till now.

9. Duration of the subsidy and/or any other time-limits attached to it

China commits itself to eliminate this measure by the year of 2000.

10. Statistical data permitting an assessment of the trade effects of a subsidy

Zero.

III. PREFERENTIAL TARIFF RATES BASED ON LOCALIZATION RATE OF AUTOMOTIVE PRODUCTION.

1. Title of the subsidy program

Preferential tariff rates based on localization rate of automotive production.

2. Period covered by the notification

1994-1996

3. Policy objective and/or purpose of the subsidy

To promote the localization process of automobile industry of China.

4. Background and authority for the subsidy

State Planning Commission.

5. legislation under which it is granted

State Council Circular on Industrial Policy on Automobiles.

6. Form of the subsidy

Preferential tariff rates.

7. To whom and how the subsidy is provided

The preferential tariff rates are granted to the automotive enterprises whose localization reaches the following ratios:

- 1) Localization rate reaches 40 per cent, 60 per cent or 80 per cent on products that incorporate imported technology on whole vehicles of M Category;
- 2) Localization rate reaches 50 per cent, 70 per cent or 90 per cent on products that incorporate imported technology on whole vehicles of N and L Categories; and
- 3) Localization rate reaches 50 per cent, 70 per cent or 90 per cent on products that incorporate imported technology on automobile and motorcycle assemblies and key components.

8. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy

Not available.

9. Duration of the subsidy and/or any other time-limits attached to it

China commits itself to phase out this measure by the year of 2000.

10. Statistical data permitting an assessment of the trade effects of a subsidy

The trade effect is negligible.

IV. PREFERENTIAL POLICIES FOR THE SPECIAL ECONOMIC ZONES (EXCLUDING THE PUDONG AREA OF SHANGHAI)

1. Title of the subsidy program

Preferential income tax policies for foreign-invested enterprises in the Special Economic Zones of Shenzhen, Zhuhai, Shantou, Xiamen, Hainan.

2. Period covered by the notification

1984 - now.

3. Policy objective and/or purpose of the subsidy

To promote regional development and absorb foreign investment.

4. Background and authority for the subsidy

State Administration of Taxation and local taxation authorities.

5. Legislation under which it is granted

Before 1991, Income Tax Law of the People's Republic of China Concerning Chinese-Foreign Equity Joint Ventures and Income Tax Law of the People's Republic of China for Foreign Enterprises.

After 1991, Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

6. Form of the subsidy

Application of preferential income tax rate, and exemption of income tax.

7. To whom and how the subsidy is provided

1. For foreign-invested enterprises established in the Special Economic Zones and foreign enterprises engaging in production and business operation in the Special Economic Zones, preferential income tax rate of 15 per cent shall be applied.

2. For foreign-invested productive enterprises established in the old areas of the cities where the Special Economic Zones are located, preferential income tax rate of 24 per cent shall be applied; for technology intensive projects, projects having foreign investment more than \$ 30 million with a long paying back period, and projects within sectors encouraged by the State such as energy, transportation etc., preferential income tax rate may further be reduced to 15 per cent.

3. For enterprises in services sectors with foreign investment more than US\$ 5 million and operation term over 10 years, income tax for the first year shall be exempted and that for the second and third years shall be reduced by 50 per cent, subject to the application and approval by the local taxation authorities. The base year shall be the first profit-making year of the enterprises.

8. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy

The preferential income tax rate applied is 24 or 15 per cent.

9. Duration of the subsidy and/or any other time-limits attached to it

1984 -

10. Statistical data permitting an assessment of the trade effects of a subsidy

Not available.

V. PREFERENTIAL POLICIES FOR THE ECONOMIC AND TECHNOLOGY DEVELOPMENT AREAS

1. Title of the subsidy program

Preferential income tax policies for foreign-invested enterprises in the economic and technology development areas in Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Ningbo, Fuzhou, Guangzhou, Zhanjiang, Shanghai (Minhang, Hongqiao, Caohejing), Beihai, Shenyang, Wenzhou, Harbin, Changchun, Hangzhou, Wuhan, Chongqing, Wuhu, Xiaoshan, Huizhou, Nansha, Kunshan, Rongqiao, Weihai, Yingkou, Dongshan.

2. Period covered by the notification

1984 - now.

3. Policy objective and/or purpose of the subsidy

To accelerate the opening-up of the region and absorb foreign investment.

4. Background and authority for the subsidy

State Administration of Taxation and local taxation authorities.

5. Legislation under which it is granted

Before 1991, Income Tax Law of the People's Republic of China Concerning Chinese-Foreign Equity Joint Ventures and Income Tax Law of the People's Republic of China for Foreign Enterprises.

After 1991, Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

6. Form of the subsidy

Application of preferential income tax rate, and exemption of income tax..

7. To whom and how the subsidy is provided

1. For foreign-invested productive enterprises established in the economic and technology development areas, preferential income tax rate of 15 per cent shall be applied.

2. For foreign-invested productive enterprises established in the old areas of the cities where the economic and technology development areas are located, preferential income tax rate of 24 per cent shall be applied; for technology intensive projects, projects having foreign investment more than \$ 30 million with a long paying back period, and projects within sectors encouraged by the State such as energy, transportation etc., preferential income tax rate may further be reduced to 15 per cent.

8. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy

The preferential income tax rate applied is 24 or 15 per cent.

9. Duration of the subsidy and/or any other time-limits attached to it

1984 -

10. Statistical data permitting an assessment of the trade effects of a subsidy

Not available.

VI. PREFERENTIAL POLICIES FOR THE SPECIAL ECONOMIC ZONE OF THE PUDONG AREA OF SHANGHAI

1. Title of the subsidy program

Preferential income tax policies for foreign-invested enterprises in the Special Economic Zone of the Pudong area of Shanghai.

2. Period covered by the notification

1991 - now.

3. Policy objective and/or purpose of the subsidy

To accelerate the opening-up of the region and absorb foreign investment.

4. Background and authority for the subsidy

State Administration of Taxation and local taxation authorities.

5. Legislation under which it is granted

Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and

Foreign Enterprises.

6. Form of the subsidy

Application of preferential income tax rate, and exemption of income tax.

7. To whom and how the subsidy is provided

1. For foreign-invested productive enterprises established in the Special Economic Zone of the Pudong area of Shanghai and for foreign-invested enterprises established there to engage in infrastructure constructions, preferential income tax rate of 15 per cent shall be applied.

2. For foreign-invested enterprises established in the Special Economic Zone of the Pudong area of Shanghai, engaged in such energy and transportation construction projects as airport, ports, railways, power stations etc. with operation term longer than 15 years, income tax for the first five years shall be exempted and that for the sixth to the tenth years shall be reduced by 50 per cent. The base year shall be the first profit-making year of the enterprises.

8. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy

The preferential income tax rate applied is 15 per cent.

9. Duration of the subsidy and/or any other time-limits attached to it

1991 -

10. Statistical data permitting an assessment of the trade effects of a subsidy

Not available.

VII. PREFERENTIAL POLICIES FOR FOREIGN INVESTED ENTERPRISES

1. Title of the subsidy program

Preferential income tax policies for foreign-invested enterprises in China.

2. Period covered by the notification

1985 - now.

3. Policy objective and/or purpose of the subsidy

To absorb foreign investment and expand economic cooperation.

4. Background and authority for the subsidy

State Administration of Taxation and local taxation authorities.

5. Legislation under which it is granted

Before 1991, Income Tax Law of the People's Republic of China Concerning Chinese-Foreign Equity Joint Ventures and Income Tax Law of the People's Republic of China for Foreign Enterprises.

After 1991, Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

6. Form of the subsidy

Application of preferential income tax rate, and exemption of income tax.

7. To whom and how the subsidy is provided

1. For foreign-invested productive enterprises with operation term more than 10 years, the income tax for the first two years shall be exempted and that for the third to the fifth year shall be reduced by 50 per cent. The base year shall be the first profit-making year of the enterprises.

2. For Chinese-foreign joint enterprises engaged in the construction of ports, docks and berths, preferential income tax rate of 15 per cent shall be applied, and for those with operation term longer than 15 years, income tax for the first five years shall be exempted and that for the sixth to the tenth years shall be reduced by 50 per cent. The base year shall be the first profit-making year of the enterprises.

3. For foreign-invested advanced technology enterprises, in case that the technologies they possess or provide are still regarded as advanced when the initial income tax exemption and reduction period expires, income tax reduction of 50 per cent may continue to be applied, for another 3 years.

4. For foreign-invested enterprises engaged in agriculture, forestry and animal husbandry, and for foreign-invested enterprises established in remote areas with less developed economic level, income tax reduction of 15 to 30 per cent may continue to be applied for another ten years after the initial exemption and reduction period expires, subject to application and approval of local taxation authorities.

5. For foreign-invested enterprises of industries and sectors in which foreign investment is encouraged by the State, provincial government may determine whether to reduce or exempt the local part of income tax.

6. For profits of foreign investors which are re-invested into the enterprises to increase the register capital, or to set up other new enterprises with operation term more than 5 years, 40 per cent of their income tax payment for the re-invested profits shall be refunded subject to application and approval from the local taxation authorities. In case that the new or the expanded enterprises with the re-investment are hi-tech enterprises, or that profits are from foreign-invested enterprises in Hainan Special Economic Zone and re-invested into infrastructure projects or agriculture development projects of the same Special Economic Zone, 100 per cent of the paid income tax for the re-investment shall be refunded.

7. For dividends, interests, rentals, franchising fees and other forms of income of foreign investors who have no commercial establishments in China, preferential income tax rate of 20 per cent shall be applied except for profits of foreign investors gained from the enterprises they have invested in China, which are subject to 100 per cent income tax exemption. For franchising fees gained from provision of special technology to scientific research, energy development, transportation development, agriculture, forestry and animal husbandry, preferential income tax rate of 10 per cent may be applied, subject to application and approval of local taxation authorities; in case that the technology is advanced or is provided with favorable conditions, income tax exemption may be applied.

8. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy

The preferential income tax rate applied is 20, 15 or 10 per cent.

9. Duration of the subsidy and/or any other time-limits attached to it
1985-

10. Statistical data permitting an assessment of the trade effects of a subsidy
Not available.

VIII. LOANS FROM THE STATE POLICY BANKS

1. Title of the subsidy program

Loans of the State Policy Banks (the State Development Bank, the Export and Import Bank of China, and the Agriculture Development Bank of China).

2. Period covered by the notification

For the State Development Bank, 1994 - 1996;

For the Export and Import Bank of China, 1991 - 1995

For the Agriculture Development Bank of China., 1994 - 1996.